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Full year 2023/24 Financial Results and Operating Review

ANNOUNCEMENT **30 AUGUST 2024**

Australian Agricultural Projects Limited (**Company**) (ASX: **AAP**) is pleased to present its report for the year ended 30 June 2024.

Trading result

The Company recorded a profit after income tax of $1,254,830 for the year ended 30 June 2024 (2023: $534,653), a result which was ahead of management's expectations. The key components of this trading result include:

- The 2024 harvest, which was completed in June 2024, yielded a total of 551,500 litres (2023: 727,400 litres). This was a pleasing result which is within 10% of initial management expectations in what was an "off" year in the biennial production cycle of the orchard.
- This harvest resulted in total revenue from lease and management fees derived from the projects the Company manages of $4,728,014, a 41% increase from the previous year. This outcome is a reflection of the current high market price for olive oil (discussed below). This increase in price also led to the actual farm gate price of olive oil for the 2024 financial year as calculated through the olive oil supply agreement with Cobram Estate Limited being much greater than that budgeted in July 2023. This resulted in a much larger than usual final price/volume reconciliation for the previous year's harvest being included in revenue.
- Funding costs increased to $506,903 (2023: $452,124) which is consistent with the increase in market interest rates between the two years.
- Depreciation expense of $667,550 (2023: $639,862) includes the depreciation of the olive trees that amounted to $456,638 (2023: $434,842).

In addition to the trading result summarised above, the Company also recorded an upward revaluation of the olive trees of $1,149,792 (2023: $1,101,007). This valuation is based upon the anticipated discounted net cash flows expected to be generated from the lease of the orchard assets to the projects the Company manages and reflects the increased maturity of the replanted portions of the orchard and the general improvement in industry conditions. The Directors have a policy of seeking an independent valuation every three years to validate this valuation. The next valuation is due in 2025.

Cash flows

The Company's net cashflows from operations this year amounted to a deficit of $312,583 (2023: surplus of $42,523). This reduction in net cashflows in a profitable year is a reflection of the deliberate effort by the Company to improve the working capital of the business. This year saw the level of trade payables reduce by $547,060 at the same time as receivables increased by $1,173,050. The Company intends to continue this trend in conjunction with a planned reduction in total loans and borrowings.

Balance sheet

The Company's balance sheet improved over the year with net assets increasing by $3,064,220 to $12,661,181. This increase was a result of:

- Trading profit before tax 967,382
- Revaluation of orchard assets 1,149,792
- Net proceeds from the issue of securities 947,046

The net proceeds from the issue of securities arose from the exercise of options that were issued in 2021 in conjunction with an entitlements offer at that time. The Company extends it gratitude to the patient support of its shareholders who have supported the Company with additional capital which enabled the progressing of the replanting programme.

A short-term corporate objective of the Company continues to be improving the resilience of the balance sheet post the replanting programme. As a consequence, it is expected that total liabilities will continue to reduce both in absolute terms and as a percentage of total assets. It is anticipated this improvement will be funded from ongoing operating profits driven by the increasing maturity of the replanted portions of the orchard and the currently high olive oil prices.

The olive orchards

Operations

Orchard operations during the 2024 financial year were the most normal in the past three years with no significant weather events other than a severe wind storm that damaged a number of irrigation system radio towers and many of the native trees on the orchard. These more stable conditions allowed the orchard team to complete the orchard operations in good time as well as complete the first phase of refurbishment of the harvest equipment.

Other than those small areas of the orchard which were impacted by the 2022 flooding, the orchard is in good health and the newly replanted portions of the orchard are growing as expected.

The aim of the orchard management team continues to be a low-cost producer of quality extra virgin olive oil. This objective is achieved by performing as much of the orchard maintenance, harvesting and processing in house with minimum reliance on external contractors unless specialist skills or equipment is required. Contract labour is used as necessary for the few labour-intensive tasks at the orchard.

The short-term focus of orchard management is now centred on two objectives:

- The improvement and reliability of the harvesting and processing equipment to ensure that the capacity exists to efficiently deal with the increased crop loads expected over the next few years; and
- Refining the management systems of the replanted portions of the orchard in order to reduce operating costs and risks.

Harvest

The annual harvest was completed in mid-June yielding 551,500 litres (2023: 727,400 litres). This harvest result was within 10% of management's expectations and should be considered in the following context:

- 2024 was an "off year" in the natural biennial production cycle of olive oil yield;
- A better comparative production year is 2022 in which 564,500 litres were produced as it was the previous off year; and
- The poor growing conditions in the previous season which resulted in lower than normal tree growth had a more severe impact on this year's fruit volume than originally expected.

The total harvest is summarised as follows:

Project	**Planted**	**Size**	**2024 Harvest (Litres)**
VOOP I	2002	285 hectares	356,800
VOOP II	2003	118 hectares	99,800
Peppercorn	2006	108 hectares	94,900
		Total	**551,500**

Testing of the oil to date has confirmed that the majority of this season's oil produced is of a high extra virgin quality and will be supplied to Cobram Estate Limited (Cobram) under existing offtake arrangements in support of the Cobram Estate and Redisland retail brands of extra virgin olive oil. A small portion of final production was impacted by disease (which was limited to one small area of the orchard) and there was some frost affected fruit harvested towards the end of harvest. As a consequence, this oil was reclassified as virgin olive oil grade, the second highest grade of olive oil. Management reports that they have been able to sell all of this oil at strong prices due largely to the lack of supply in the current market (refer below).

Orchard management's outlook for the 2025 harvest which is expected to be an "on" year, is that it should be greater than this year's harvest as well as that of 2023 (the most recent on year). The 2025 harvest will be the first harvest since the commencement of the replanting programme where the full orchard is in production although management remains conscious that the trees impacted by the 2022 flooding will still take several seasons to fully recover.

The Company is proceeding with an initial harvest budget for 2025 in the region of 790,000 to 850,000 litres and this will be refined by the orchard team later this year after flowering and fruit set in November. As always, the 2025 harvest will depend on general climatic and growing conditions during the season. The Company will continue to report each significant event such as flowering and fruit set as well as indicators of oil accumulation through its quarterly reports.

Price

The international price for olive oil has been extremely strong over the past year and are currently at the highest price the Company has seen since the establishment of the orchard in 2002.

The principal cause of this increase has been a series of poor harvests in the European region largely as a consequence of disease and poor growing conditions, specifically extremely low rainfall across the growing regions. These poor harvests have led to reduced oil stocks that have not been able to meet the demand required by major olive oil brands to supply their customers. This has resulted in a unique situation where olive oil wholesalers and owners of brands have been prepared to pay high prices for oil to secure supply to protect their customer base. These high bulk prices were finally reflected in significantly increased shelf prices in the Australian market in the middle of 2023 led largely by the brands of imported oil.

The Company sells its oil through an Olive Oil Supply Agreement with Cobram Estate Limited. The pricing mechanism in this agreement refers to a farm gate price of oil which is ultimately derived from the average price which Cobram Estate is able to sell packaged olive oil in the Australian market. Accordingly, the recent increases in the retail shelf price have been of significant benefit to the Company.

The Company will continue to monitor this situation. The outlook for the current European harvest is positive which will likely take some of the heat out of the current market. However, it is the Company's view that it will take several seasons before the supply will return to more normal levels with manageable levels of carry over stock at the end of each season.

The Company recognises that this unique set of circumstances has resulted in the retail linked price the Company will receive for the current harvest being less than the spot market price for bulk oil. However, management retains the view that in the longer term, having the price linked to the retail shelf price of olive oil will result in much greater longer-term value for the Company and the Growers in the projects we manage.

Operating costs

Business operations continue relatively smoothly and many of the supply pressures that arose during the COVID period have subsided. Quality casual labour still remains tight in the region, however, the increased supply of international backpackers at the time of harvest has mitigated this risk significantly. The outlook for the water market this season is for prices to be in line with or below the historical long-term average and the water storages have all started the season with high levels.

Material business risks

The Group has set out below potential risks that may have a material impact on the Group's future financial performance and operations.

The Group makes every effort to identify materials risks and where possible, take the appropriate action to manage and mitigate these effectively. This section does not attempt to provide an exhaustive list of risks faced by the Group or by investors in the Group, nor are they in order of significance. Actual events may be different to those described.

The Group's management of material risks and the systems has in place to manage these risks include the following:

Agricultural risks

This category includes those risks that are inherent to most agricultural businesses and cannot be avoided regardless of management's action and includes adverse growing conditions, damaging events such as fire and flood and market conditions which influence demand, supply and price of the oil we produce.

The Company continues to implement appropriate policies and procedures that have the objective of mitigating the impact of these events where possible. These include insurance where appropriate, orchard design and maintenance as well as long term secure marketing arrangements.

Financial risks

This risk is categorised as an economic risk and is managed through detailed budgeting and forecasting supported by monthly reporting systems.

Financial risk including cashflow management, inventory management and the maturity of core debt facilities are monitored with a view of identifying financial issues as soon as practical so that appropriate mitigating action can be taken in a timely manner.

Cyber risk

This risk is categorised as a business risk and is managed by undertaking regular risk assessments of the exposure to disruption events and the impact of an event on the ability of the Company to operate.

The Company has a focus on prevention and also continues to operate recovery measures as well as raising employee awareness to ensure the integrity of its digital environment.

Regulatory risk

The Company maintains an Australian Financial Services Licence (ASFL) as part of the operation of the two managed investment schemes it operates. There is a business risk that any change to the conditions of the ASFL or the regulatory environment surrounding managed investment schemes may impact the fundamental structure of the projects the business manages.

This risk is mitigated by the Company maintaining a high compliance culture and continually monitoring the regulatory environment it operates in.

People risk

Future financial and operational performance of the Company is dependent on the performance and retention of key personnel. The unplanned or unexpected loss of key personnel, or the inability to attract and retain experienced individuals to the business may adversely affect the Company's future financial performance. This risk is mitigated by continually monitoring market rates and conditions for compensating its personnel and adopting appropriate human resource management and compensation policies to support its people resource.

MIS Project restructure

The first term of the two managed investment schemes the Company operates ends on 30 June 2025; shortly after the completion of the June 2025 harvest. Each of these projects have a lease option for a further 25 years.

The Company has considered proposals to restructure the projects over the past year. To date, no single restructure proposal has been able to meet all of the competing interests of the individual participants (Growers) in the Projects.

While the Company is not averse to the continuation of the Projects, it is strongly of the view that there are more efficient structures for both the Company and the Growers. The focus now is on providing the Growers with alternatives to the exercise of their option which:

- allows project participants to access the benefit of their lease option without the inherent limitations of operating a managed investment scheme;
- give the Growers some liquidity to their investments; and
- simplify the overall operation of the business.

The Company is conscious of the responsibilities it has to the individual growers in the projects and that any change to the existing arrangements is an involved and complex exercise. Developments addressing these issues will be directly advised to the Growers and, where appropriate, will be set out in the Company's quarterly reports.

Looking forward

The Directors consider the future outlook for the Company is positive and this will be driven by:

- increasing harvest volumes as the last of the replanted portions of the orchard enter commercial production;
- historically high olive oil prices as a result of the poor European harvests; and
- the benefits that may flow from the Growers being required to either exercise their option for a further 25-year term or consider some alternative action.

Separately, the Company will continue to review opportunities in the agribusiness sector in which the Company's management has considerable experience or where immediate cash flows can be created.

Appreciation

As always, the Company continues to rely on a small team which manages the orchard and produces cost effective results. The Directors take this opportunity to record their appreciation for their ongoing efforts as well as the continuing support of our shareholders.

This announcement was authorised for release by the Board of Directors of the Company.

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